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RUEHBJ/AMEMBASSY BEIJING PRIORITY 3382  
RUEHBY/AMEMBASSY CANBERRA PRIORITY 9369  
RUEHUL/AMEMBASSY SEOUL PRIORITY 3650  
RUEHKO/AMEMBASSY TOKYO PRIORITY 9755  
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION WASHINGTON DC PRIORITY 0013  
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C O N F I D E N T I A L SECTION 01 OF 04 JAKARTA 005420

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DEPT FOR EAP/MTS AND EB/IFD/OMA  
TREASURY FOR IA-ANNA JEWELL  
COMMERCE FOR GOLICKE/4430  
DEPARTMENT PASS AID  
DEPARTMENT PASS FEDERAL RESERVE SAN FRANCISCO  
DEPARTMENT PASS EXIM, OPIC, TDA

E.O. 12958: DECL: 04/28/2016

TAGS: EFIN PINR KCOR KMCA PGOV ID

SUBJECT: TAX, CUSTOMS CHIEFS REPLACED IN REFORM EFFORT

REF: A. JAKARTA 610

B. JAKARTA 4964

JAKARTA 00005420 001.2 OF 004

Classified By: Economic Counselor William A. Heidt, Reasons 1.4 b,d.

¶1. (C) Summary. President Susilo Bambang Yudhoyono (SBY) replaced the long-serving, corrupt, and powerful Directors General of Taxation and Customs on April 21. The decision shows SBY's strong support for Finance Minister Sri Mulyani Indrawati's efforts to reform the Ministry of Finance (MOF) bureaucracy to reduce corruption, enhance effectiveness, remove obstacles to pending tax and investment reform legislation, and respond to investor complaints. The incoming Director General (DG) for Tax while no champion of reform, appears close to Mulyani and should help bring the historically independent Directorate General of Taxation (DGT) under more effective MOF supervision. The new DG for Customs remains a relative unknown. All in all, the changes cheered the business community. Paragraphs 12-14 include bio data. End Summary.

Tax, Customs Chiefs Replaced

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¶2. (SBU) Just three days after Minister of Finance Sri Mulyani Indrawati told donors of the appointment of two prominent Indonesians to help steer its tax and customs reform efforts (Ref B), the MOF announced a major reshuffle of its Directors General. The changes came via Presidential Decree No. 45/M/2006 of April 20, 2006, and include,

--Darmin Nasution, previously Director General for Financial Institutions, replaced the notorious Hadi Purnomo as Director General for Taxation.

-- Anwar Suprijadi, previously Chairman of the State Administrative Agency, replaced Eddy Abdurachman as Director General for Customs and Excise.

--Dr. Fuad Rachmany, previously Deputy of the Department of Finance and Funding at the Reconstruction and Rehabilitation Agency for Aceh and Nias (BRR), replaced Nasution as Director General for Financial Institutions.

¶3. (C) The April 21 announcement came during Minister Mulyani's visit to Washington D.C. for the annual spring meetings of the World Bank and International Monetary Fund (IMF). Due to GOI failure to implement recommendations from past donor assistance programs, especially in tax administration, the donor community had urged her to "make a big gesture" (i.e. fire Purnomo) that would reassure capitals and leverage greater support.

¶4. (SBU) Mulyani swore in the new DGs April 26, the day after her return to Jakarta. Anggito Abimanyu, the Acting Head of the policy planning arm of the MOF (BAPEKI) and a trusted advisor to Minister Mulyani told us April 27 that replacing the three DGs comprised "the first step." In her speech, Mulyani thanked the outgoing DGs for their service, and outlined her vision of the dual roles of enforcement and public service in Tax and Customs. "There has been disappointment and a lack of trust on the public service side," she noted. The new DGs should help her implement systematically, effectively and quickly the following,

-- Separate policy formulation from administration.

-- Improve and modernize tax and customs offices to improve customer service.

-- Maximize the use of information technology to minimize contact between tax and customs officials and the public.

Outgoing DGs: Good Riddance

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JAKARTA 00005420 002.2 OF 004

¶5. (SBU) The Directorate General for Taxation (DGT), responsible for tax policy, administration and revenue collection, sits in a separate compound from the main MOF complex and has an independent, often arrogant mindset. Outgoing DG Hadi Purnomo, while smart and capable in many respects, had a poor reputation in the business community; corruption in tax administration became one of the top business complaints. Purnomo proved notorious for strong arm tactics such as imposing travel bans on managers of companies under audit or showing wealthy individuals involved in tax cases that he had satellite photos of their property overseas. During his watch, discipline among DGT officers eroded noticeably, and inflated tax assessments became the norm, forcing businesses to negotiate (i.e., pay bribes) to obtain a more reasonable decision.

¶6. (C) In office since 2002, former DG for Customs Eddy Abdurachman, while not as notorious as Purnomo, allowed corruption and poor service in the DG of Customs and Excise (DGCE) to increase and become a major business complaint. Exporters and importers alike note that Customs officials routinely shake them down through a variety of ploys: arbitrary check prices, expedition fees, delays in processing, or outright demands for bribes. Companies that import or export time sensitive products (i.e., fresh and frozen foods, seasonal garments, etc.) or high value goods, remain the most vulnerable. The Indonesian media often has blamed customs officials for facilitating large quantities of smuggled goods that enter and exit Indonesia unchecked.

New DGs: Not Perfect, But an Improvement

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¶7. (C) The newly named DG for Taxation, Darmin Nasution, seems as much of an insider as Purnomo or Abdurachman, having served since January 2000 as DG for Financial Institutions,

the MOF division that supervises pension and mutual funds, insurance companies, and publicly listed companies. Nasution, although smart and tenacious, comes across as slow and deliberative and not particularly business-friendly. Despite six years in office, he has no reform record -- the MOF's regulation of the sectors under his control, as well as restructuring efforts in them, have lagged noticeably compared to the more dynamic banking sector. U.S. insurance companies have described weak regulation and corruption among MOF insurance inspectors under Nasution as major factors behind the slow growth of the sector. Nasution, however, knows how to get things done: a western insurance executive told us Nasution personally solicited insurance companies (including his own) and delivered to the DPR Commission XI a USD 100,000 payment in 2004 to ensure passage of amendments to the bankruptcy law that would protect insurance companies from fraudulent bankruptcy suits. Despite his flaws, Nasution has the important advantage of enjoying a close relationship with Mulyani--he preceded her as Chairman of the Institute for Economic and Social Research (LPEM) at the University of Indonesia in the early 1990s.

¶8. (C) Rachmany, Nasution's replacement as Director General for Financial Institutions, also brings some baggage to his new position; seen as very cautious, and with questionable probity. A U.S. Treasury Advisor who worked under Rachmany at the Directorate of Government Securities Management (DPSUN) in 2001-03 uncovered documentary evidence that Rachmany or one of his close associates rigged bid/ask prices on GOI bond buybacks in 2003, presumably to gain kickbacks from bond sellers. (GOI threw the advisor out of Indonesia for his efforts.) Rachmany has proven helpful to the Embassy in previous roles in the MOF and in the Agency for Rehabilitation and Reconstruction of Aceh and Nias (BRR), although other Aceh donors complain about the BRR's slowness in getting financial systems up and running. Suprijadi, the new DG for Customs, although not well known, apparently, according to an Embassy contact, has the trust of Coordinating Minister for Economic Affairs Boediono.

JAKARTA 00005420 003.2 OF 004

Reaction from Business Community

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¶9. (SBU) One long-time expatriate consultant to the MOF described Purnomo as "the most corrupt in a long line of corrupt tax DGs." After Nasution received his appointment as the new DG, another expatriate consultant noted that "Mr. Untouchable was finally toppled. Quite amazing." The Chairman of the Indonesian Chamber of Commerce (KADIN) Mr. Hidayat told the press that the new team seems "capable and honest. The changes will support improvement of the investment climate. KADIN will continue to intensify its dialogue with the government." The Chairman of the Indonesian Employers' Association and respected businessman Sofyan Wanandi told the media, "I have new hope there can be trust between the government and businessmen, a change from the past."

¶10. (C) The Vice President of a major infrastructure firm expressed delight at Abdurachman's replacement. "Imagine for a USD 3 million contract, you had to pay USD 300,000-500,000 to Customs to release your equipment off the docks. Delays were very lengthy and storage fees would pile up. Let's hope things will get cleaned up now." Others, however, remain cautious. Manufacturers and traders at medium-sized Sumatran firms said problems exist in local tax offices and did not expect miracles from changes at the top. The head of a large hardware retailer in Surabaya expressed like sentiments, "Changing the leader is not enough, corruption in DGT is everywhere, but it's a start."

Comment: The Mighty Have Fallen

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**¶11. (C)** Our Indonesian contacts unanimously view the Director General for Taxation as one of the "wettest" positions (i.e. greatest opportunities for graft) in the GOI, and Purnomo used it to maximum personal advantage. He outlasted two Presidents and four finance Ministers, and SBY's failure to replace him through the first 18 months of his administration showed that SBY had failed to gain full control over the bureaucracy. Mulyani's ability to remove Purnomo after just five months in office confirms our impression that among the GOI economic technocrats, she has the strongest relationship with SBY and appears the most willing to take risks. The new Directors General do not come across as great reformers or leaders, but do seem clear upgrades from the old crew, and should help bring the historically independent DGT under firmer MOF control.

Bio Data for New MOF Directors General

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**¶12. (U)** Dr. Darmin Nasution, born in December 21, 1949 in Tapanuli, North Sumatra, received his Bachelor Degree in Economics from the University of Indonesia in 1976 and serves as a lecturer there. In 1986, Darmin obtained his doctorate in economics from University Paris 1 Pantheon Sorbonne, France. From 1993-95 he served as Assistant to the Coordinating Minister for Industry and Trade and from 1998-2000 Assistant to the Coordinating Minister for the Economy. He became Chairman of the Capital Markets Supervisory Agency (BAPEPAM) in March 2005 while also serving as Acting Director General for Financial Institutions (DGFI, since January 2000), both in the Ministry of Finance. Married, Nasution has two children.

**¶13. (U)** Dr. Ahmad Fuad Rachmany (51), an economist who recently served as Deputy of the Department of Finance and Funding at the Agency for the Rehabilitation and Reconstruction of Aceh and Nias (BRR), has experience as an economist, lecturer, researcher, and academician. He obtained his PhD in economics from Vanderbilt University. He teaches at several universities, including the University of Indonesia (UI) and the State Accountancy College (STAN),

JAKARTA 00005420 004.2 OF 004

where he has lectured for over 20 years. Rachmany held several senior positions at the Ministry of Finance after joining in 1981. He worked as a researcher in the Economics and Financial Bureau (1997-1998); Chairman of the Debt Management Unit Team (2002); Head of State Obligation Management (2001-2004); and Director of Government Securities Management, a position he still holds. He sits on the advisory board of commissioners of PT Danareksa (a state-owned investment enterprise) and PT Bank International Indonesia (BII).

**¶14. (U)** Anwar Suprijadi, born in December 23, 1948 in Semarang, Central Java, received his Bachelor Degree in Economics from Diponegoro University, in Semarang, Central Java in 1972. In 1983, Suprijadi obtained his Masters degree in transportation from the Bandung Institute of Technology. He worked in various positions in Perusahaan Kereta Api, a national railway company, under the Ministry of Transportation from 1984-1988, becoming its President Director from 1991 to 1995. He moved to the Ministry of Cooperative and Small and Medium Enterprises in 1995 and served as DG for Small Enterprises Supervision. He returned to the Ministry of Transportation in 1998 as Secretary General (a deputy Minister function). He became State Minister for State Administrative Reform under former President Megawati Soekarnoputri in 2001, and Chairman of the State Administrative Agency in 2003.

PASCOE